

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	2
LOCAL OFFICE RESPONSE	2
FINDINGS AND RECOMMENDATIONS	
Cash Receipts	
Daily Mail Record of Cash Receipts	2
Pending File of FIA 138/2362's	2-3
Permanent File of FIA 138/2362's	3
Returned Warrants	3
Mail Log	4
Frequency of Deposits	4
Mail Pick Up	4-5
Cash Disbursements	
Check Signing	5
Sign-O-Meter Record	5
General Ledger	5
Modified Accrual Basis Balance Sheet	6

Safe and Controlled Documents	6
Food Stamp Inventory and Issuance	
Separation of Duties – Food Stamps	6
Recounting Food Stamp Envelopes	6-7
Transporting Food Stamps to the Post Office	7
Medical Transportation	
Medical Transportation	7
State Emergency Relief	
Supporting Documentation for Payments	8
Employment Support Services	
Vehicle Repair, Insurance and Vehicle Purchase	8
Client Processing	8
CIS/Input/Output Controls	
CIS Security Agreements	9
Security Officers Log Report	9
Missing ASSIST Enrollment Profiles and Security Agreements	10
Incompatible ASSIST/CIS Job Types/Status	10
IRS Information Security	
Knowledge of IRS Security Procedures	11
Payroll and Timekeeping	
Payroll Record and Retention	11
Reconciliation of Payroll	11-12
Reconciliation of the PR-180	12
Procurement Card	12
Telephone Usage	12

INTRODUCTION

The Office of Internal Audit performed an audit of Ionia/Montcalm County FIA for the period August 1, 2000 through October 27, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Ionia/Montcalm County FIA had 93 full time equated positions (FTE's) at the time of our review. Ionia/Montcalm County FIA provided assistance to an average 5,942 recipients per month during FY 1999, with total assistance payments of \$7,603,522 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Ionia/Montcalm County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Telephone Usage
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Food Stamp Inventory and Issuance	Medical Transportation
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Ionia/Montcalm County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization.

Local Office Response

A follow up review was done of the Ionia/Montcalm County FIA office. The management is in general agreement with the findings listed in the report, except for #13 and 14. The zone office is involved with resolving the discrepancies between AP and Accounting Manual policy.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Daily Mail Record of Cash Receipts

1. The Ionia/Montcalm County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the County used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that the Ionia/Montcalm County FIA record all negotiables for deposit on the FIA-4729.

Pending File of FIA-138/2362's

2. Ionia/Montcalm County FIA did not maintain a pending file of Action Taken on State Treasurers Warrants by the Local Office (FIA-138) and the Services Warrant Rewrites/Disposition Request (FIA-2362) as required by Accounting Manual Item 461

and 462. Maintaining a pending file allows the fiscal clerk to determine which have not been disposed of and awaiting a workers response.

WE RECOMMEND that Ionia/Montcalm County FIA maintain a pending file of FIA-138/2362's.

Permanent File of FIA138/2362's

3. Montcalm County FIA did not maintain a permanent file of Action Taken on State Treasurers Warrants by the Local Office (FIA-138) and Services Warrant Rewrite/Disposition Request (FIA-2362) in alpha or case number order as required by Accounting Manual Item 462. Keeping the file in alpha order provides an audit trail to the Record and Disposition of Checks/Warrants (FIA-61).

WE RECOMMEND that Montcalm County FIA keep the completed FIA-138/2362's in alpha order as required by the Accounting Manual.

Returned Warrants

4. Montcalm County FIA was maintaining 3 returned state warrants on hand for periods longer than the 10 days required by Accounting Manual Item 431. The warrants on hand dated back to August and September 2000. Voiding returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that Montcalm County FIA dispose of returned state warrants within 10 business days.

Mail Log

5. The Ionia/Montcalm County FIA mail clerk did not maintain a copy of the Record and Disposition of Checks/Warrants (FIA-61) with the negotiable items received in the mail, as required by Accounting Manual Item 431. Maintaining a copy of the FIA-61 provides a record to ensure that all cash and negotiables received are properly accounted for.

WE RECOMMEND that the Ionia/Montcalm County FIA mail clerk maintain a copy of the FIA-61 with the cash and negotiable instruments.

Frequency of Deposits

6. Montcalm County FIA did not make bank deposits weekly, as required by Accounting Manual Item 430. Rather, the local office was making deposits once or twice per month. Depositing the receipts weekly increases interest earned and helps to prevent funds from being misplaced or stolen while on hand in the local office.

WE RECOMMEND that Montcalm County FIA deposit its cash receipts at least once each week.

Mail Pick Up

7. Montcalm County FIA had one person pick up the mail at the post office in an unlocked container. The Primary Internal Control Criteria for FIA Local/District Office Operations recommends that either two people pick up the mail from the post office or a locked mail bag be used. Having two people pick up the mail or using a locked mail bag helps to ensure that cash or negotiable instruments received in the mail are not lost or stolen before being recorded on the local office records.

WE RECOMMEND that Montcalm County FIA either have two people pick up the mail at the post office or use a locked mailbag.

Cash Disbursements

Check Signing

8. Montcalm County FIA did not properly separate the cash disbursements duties. Our review disclosed that two employees prepared and signed the checks, without having the other person review the edit listing before processing the checks. Accounting Manual Item 410 states that for internal control purposes, the person responsible for processing and signing checks should have another person review the edit listing for accuracy before printing the checks.

WE RECOMMEND that Montcalm County FIA have an a second employee review the edit listing of the other person before the checks are printed and signed.

Sign-O-Meter Record

9. Montcalm County FIA did not prepare the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1. Use of the Sign-O-Meter and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Montcalm County FIA use the Sign-O-Meter record and reconcile it to the Check Register each month.

General Ledger

No findings noted in this area.

Modified Accrual Basis Balance Sheet

No findings noted in this area.

Safe and Controlled Documents

No findings noted in this area

Food Stamp Inventory and Issuance

Separation of Duties - Food Stamps

10. Montcalm County FIA did not properly separate duties in the food stamp mail issuance process. Two employees handled the mail issuance process, however they worked independent of one another, and no independent reconciliation of the issuance was performed. Food Stamp Issuance Instructions Manual Item 510 requires that mail issuance be performed by two people, or that a reconciliation of the issuance be performed by an independent employee after all envelopes have been run through the postage machine. Having two people work together in the issuance process helps to prevent errors and inappropriate issuance of food stamps.

WE RECOMMEND that Montcalm County FIA has two people work together to do the food stamp mail issuance, or have an independent employee perform a reconciliation of the issuance.

Recounting Food Stamp Envelopes

11. Montcalm County FIA did not recount the envelopes in the food stamp mail issuance after they were run through the postage machine, as required by Food Stamp Issuance Instructions Manual Item 510. Recounting the envelopes helps to ensure that none were stolen or misplaced during the mail issuance process.

WE RECOMMEND that Montcalm County FIA recount food stamp mail issuance envelopes after they are run through the postage machine.

Transporting Food Stamps to the Post Office

12. Montcalm County FIA had one person transporting food stamps to the post office in an unlocked container. Food Stamp Issuance Instructions Manual Item 500 states that internal controls would be strengthened by using locked mailbags for transporting the food stamps to the post office. Using locked mailbags or having two people transport the food stamps reduces the risk of the food stamps being lost or stolen in transit.

WE RECOMMEND that Montcalm County FIA use locked mailbags or have two employees transport food stamps to the post office.

Medical Transportation

Medical Transportation

13. Ionia/Montcalm County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for 13 out of 17 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Ionia/Montcalm County FIA ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

State Emergency Relief

Supporting Documentation for Payments

14. Ionia/Montcalm County FIA did not attach original supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An original invoice was not attached for 14 of the 50 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Ionia/Montcalm County FIA attach an original invoice to the Accounting Office copy of the FIA-849.

Employment Support Services

Vehicle Repair, Insurance and Vehicle Purchase

15. Ionia/Montcalm County FIA did not have casefile documentation to document the clients need for the car repair, car insurance or car purchase in five of the six cases reviewed. PEM 232 allows for ESS funds to be used for vehicle repair or support services only when necessary for employment.

WE RECOMMEND that Ionia/Montcalm County document that vehicle repairs and items purchased through program support are necessary to obtain or retain employment, and that payments made for those items will enable the client to obtain or retain employment.

Client Processing

No findings noted in this area.

CIS/ASSIST

CIS Security Agreements

16. Ionia/Montcalm County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 19 employees who access the Client Information System (CIS), as required by L-Letter 97-063. The 19 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011).

WE RECOMMEND that Ionia/Montcalm County FIA have all employees who have access to the CIS system complete a CIS Security Agreement and that the status codes on the Security Agreement are consistent with the status code on the PF-011 report.

Note: Corrective Action taken while the auditor was on site.

Security Officers Log Report (PD-180)

17. Ionia/Montcalm County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. In addition, the same person who is responsible for reconciling the PD-180 log also maintains the CIS Security Agreements. For internal control purposes the reconciler must not be the CIS Security Coordinator and someone without access to CIS.

WE RECOMMEND that Ionia/Montcalm County FIA reconcile the PD-180 report to revised Security Agreements and that an independent person performs the reconciliation.

Missing ASSIST Enrollment Profiles and Security Agreements

18. Two employees at Ionia County FIA who had access to ASSIST did not have ASSIST Enrollment Profiles (FIA-3720) and one employee did not have ASSIST Security Agreements (FIA-3721) on file, as required by L-Letter 97-156. Accurate, up-to-date Enrollment Profiles and Security Agreements provide documentation that workers

understand the access they have on ASSIST and the responsibility associated with that access.

WE RECOMMEND that Ionia County FIA ensure that accurate, up-to-date Enrollment Profiles and Security Agreements are on file for all employees who have access to ASSIST.

Note: Corrective Action was taken while the auditor was on site.

Incompatible ASSIST/CIS Job Types/Status

19. Two employees at Ionia and 4 employees in Montcalm County had ASSIST job types and CIS status codes that were incompatible. The five clerks had job type 360 (REG) 240(ES) and had CRS one clerk had FLM status on the Client Information System (CIS). These job types and status codes allow these employees to register cases and open them on ASSIST and perform file maintenance on CIS. This does not allow for proper separation of duties.

WE RECOMMEND that Ionia/Montcalm County FIA either change or customize the job types or status codes of these employees so that they are not able to register and open cases.

IRS Information Security

Knowledge of IRS Security Procedures

20. Mailroom staff newly hired Family Independence Specialists (FIS), and Eligibility Specialists (ES) at Ionia/Montcalm County FIA were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all

aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Ionia/Montcalm County FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

Payroll and Timekeeping

Payroll Record and Retention

21. The Ionia/Montcalm County FIA timekeeper maintained the certified copy of the HR-332A. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND that Ionia/Montcalm County FIA have the certifier or someone other than the timekeeper retain the HR-332A.

Reconciliation of Payroll

22. The Ionia/Montcalm County FIA did not have an independent person reconcile the timesheets (FIA-4299) to the MAIN Human Resource System, Time and Attendance Summary Report (HR-332) prior to certifying the payroll. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the T&A certifier and timekeeper reconcile the HR-332A to the FIA-4299 to prevent any erroneous time being entered into the system.

WE RECOMMEND that Ionia/Montcalm County FIA have an independent person reconcile the HR-332A to the FIA-4299.

Reconciliation of the PR-180

23. The Ionia/Montcalm County FIA did not have an independent person reconcile the turnaround report (PR-180) to the HR-332A report. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the PR-180 report to attest to the accuracy of the payroll.

WE RECOMMEND that Ionia/Montcalm County FIA have an independent person reconcile the PR-180 report.

Procurement Card

No findings noted in this area.

Telephone Usage

No findings noted in this area.